FISCAL NOTE

Bill #:	HB0564	**Title:**	Create primary sector business workforce training act
Primary Sponsor:	Lindeen, M	**Status:**	Free Conference Committee

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 **Difference**	FY 2005 **Difference**
Expenditures:		
General Fund Transfers	$122,238	$525,709
State Special Revenue	$1,519,822	$3,248,000
Revenue:		
General Fund	$122,238	$525,709
State Special Revenue	$122,238	$525,709
Net Impact on General Fund Balance:	$0	$0

- ☐ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☒ Dedicated Revenue Form Attached
- ☒ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Bill Description

1. This bill creates the “Primary Sector Business Workforce Training Program”.
2. It provides for a seven-member loan review committee to make grants to qualifying “primary sector businesses” to pay for employee education and training provided by “eligible training providers”. A primary sector business is one that is expanding to add value to a product, process, or export service; and for which at least 50% of the sales occur outside Montana, or the employer is a manufacturing company with at least 50% of its sales to other Montana companies that have 50% of their sales occurring outside of Montana. In addition, among other things, to be eligible for the grant the primary sector business must:
   a) show prospect for achieving commercial success and for creating new jobs;
   b) be reasonably expected to provide an economic return in a reasonable period of time; and
   c) provide matching funding equal to at least $1 for every $3 of grant funding requested.

   The grant applicant must further meet at least one of the following criteria:
   a) be a value-added business as defined by the Montana Board of Investments;
   b) demonstrate a significant positive economic impact to the region and state beyond the job creation involved in applying for the grant;
   c) provide a service or function that is essential to the locality or state; or

d) be a for-profit or nonprofit hospital or medical center providing a variety of medical services for the community or region; and
e) engage in a workforce training program that involves at least 10 new jobs.

Furthermore, contracts with grant recipients must contain provisions that:

a) require the full amount of any grant to be reimbursed in the event that the primary sector business ceases operation within the 12-month grant contract period;
b) requires the employer receiving the grant to repay any shortfall in the personal income tax revenues that otherwise would have accrued to the state as a result of failing to meet the number of jobs or pay level of those jobs described in the final grant application.

3. Any grants issued may not exceed $5,000 for each full-time position, for the person being trained, for which salary will exceeds the current Montana average weekly wage or the current average weekly wage level of the county or reservation in which the employees are to be principally employed. Also, the total grant amount cannot be larger than the present value of the expected incremental individual income tax receipts expected over the 10-year period immediately following the grant award.
4. The grants will be repaid based on a "new jobs credit" that must be based on the gross wages paid for new jobs created under the program. The Department of Revenue is to calculate the credit amount based on the gross wages paid by the employer, and may use a statewide average effective tax rate by income bracket to calculate estimated receipts from the gross wages paid. This amount is then transferred to a state special revenue account to the credit of the Office of Economic Development who will credit grant accounts for these receipts.

Financial Impacts

5. The loan review committee will receive INTERCAP loans from the Board of Investments as needed to provide funding for the grants issued under this bill. The interest rate on the INTERCAP loan is 3% in fiscal 2004 and 4% in fiscal 2005.
6. This bill will result in 350 new jobs being created between July 1, 2004 and June 30, 2005; and 800 new jobs being created between July 1, 2005 and June 30, 2006. All of these are jobs are new jobs that are not included in the current revenue estimates contained in HJR2.
7. The average starting salary for these jobs is $27,500 and this amount will grow by an estimated 1.5% per year.
8. The average effective individual income tax rate applicable to the gross wages of the new jobs created under this bill is 2.54%.
9. The annualized wages paid in fiscal 2004 for the 350 new jobs created in that year total $9,625,000 (350 X $27,500 = $9,625,000) and the annualized income taxes paid total $244,475 ($9,625,000 X 2.54% = $244,475). The annualized wages paid in fiscal 2005 for these jobs total $9,769,375 (350 X $27,500 X 1.015) and the annualized income taxes total $248,142 ($9,769,375 X 2.54% = $248,142).
10. The annualized wages paid in fiscal 2005 for the 800 new jobs created in that year total $22,000,000 (800 X $27,500 = $22,000,000) and the annualized income taxes paid total $558,500 ($22,000,000 X 2.54% = $558,500). The annualized wages paid in fiscal 2006 for these jobs total $22,330,000 (800 X $27,500 X 1.015) and the annualized income taxes total $567,182 ($22,330,000 X 2.54% = $567,182).
11. The total annualized income taxes for fiscal 2005 is $806,942 ($248,142 + $558,500).
12. The new jobs created in fiscal 2004 and 2005 will be added uniformly over time during the course of each year. Consequently the net impact on individual income taxes in fiscal year 2004 will be half the annualized impact of $244,457 or $122,238; and the net impact in fiscal year 2005 will be half the annualized 2004 amount plus half the annualized fiscal 2005 amount, or $525,709 ($122,238 + $806,942/2 = $525,709).
13. There will be a transfer from the general fund to the state special revenue account in the Office of Economic Development equal to the income tax revenues received in fiscal 2004 ($122,238) and 2005

($525,709). Of these transfers, 5% or $6,112 in FY04 and $26,285 in FY05, will be retained in the account to assist the Department of Labor and Industry in analyzing data and reporting on the available labor supply in Montana's rural, reservation, and urban labor markets

14. This bill, which applies to grants issued on or after October 1, 2003, has no impact on administrative expenses of the Department of Revenue.

Office of Economic Development

15. A seven-member review committee (the Committee) is created to award training grants, and is administratively attached to the Office of Economic Development (the Office). The Committee would analyze and adopt rules to administer the program.
16. The Board of Investments (the Board) is authorized to provide loans up to $10 million to the Office to provide funding for the training grants. Loans would be made under the Board of Investments' INTERCAP loan program. INTERCAP is a variable rate loan program whose interest rate changes every February 16th. Loan repayment is based on an average interest rate of 5.0%, while actual interest rates may be less or more during the term of the loans. Semi-annual principal and interest payments are required every February 15th and August 15th. The INTERCAP loans are to be repaid by new jobs credit that is generated from the creation of permanent, full-time jobs.
17. The average training grant would be $3500 per individual, for a total cost of grants of $1,225,000 (350 X $3500) in FY2004 and $2,800,000 (800 X $3500) in FY2005.
18. A loan in the amount of $1,300,000 would be made to the Office on October 1, 2003. Another loan in the amount of $2,600,000 would be made to the Office on July 1, 2004. Loan terms would be ten years.
19. The Office would establish and maintain an eligible trainers list of individuals and organizations that may be used to provide workforce training. The Committee would meet nine times in FY 2004 and twelve times in FY 2005 to consider applications for workforce training grants.
20. The Office will require one professional level FTE and an administrative assistant FTE beginning on the bills effective date, October 1, 2003. Both FTE would become permanent in FY 2005. Personal Services costs are estimated to be $70,675 in FY 2004 and $94,300 in FY 2005. Operating expenses are estimated to be $35,000 in FY 2004 and $30,000 in FY 2005. The remaining amount of the loan would be used for debt service and grants in both fiscal years.
21. All administrative expenses for the training program including Committee and staff expenses will be paid from the special fund created in HB 564, which will be paid into by the Department of Revenue based upon new taxes generated from new employment as a result of worker training grants. Revenues from new taxes paid into the special fund offset program expenditures.
22. The Office of Economic Development may borrow up to $10 million from the Board of Investments to fund the grants. The loan(s) will be paid back by the Department of Commerce from funds deposited in the special fund by the Department of Revenue. The Department of Revenue will receive those funds from new taxes generated by new workers employed by companies receiving the worker training grants.

Department of Labor and Industry

23. Section 6, (6) requires the Department of Labor and Industry to analyze data and report on available labor supply in Montana's rural, reservation, and urban labor markets. Traditional labor market data does not provide and convey the entire picture of a region's labor market. As a result, the concept of "available" labor supply was developed to take into account sources of workers other than estimated unemployed persons. Labor availability studies are commonly used to identify and quantify the incentive required to entice workers to change employment. The data is used to promote economic development activities within labor markets.
24. The Department assumes that the labor availability study referenced in Section 6, (6), is similar to a recent study conducted by the Department and the Bureau of Business and Economic Research of the University

of Montana-Missoula. The study reported on labor supply for rural and urban areas of Montana. The study cost $110,000 and did not include information specifically related to reservation labor markets.

25. Survey data will be collected using telephone interviews with individuals living in rural, reservation, and urban labor markets and will use a random-digit dial process administered by using a computer-assisted telephone interviewing process to ensure the accurate collection of information and the efficient transfer of data for analysis.
26. The final report would consist of three sections: definitions of each surveyed labor market and general information about the estimated available labor supply; specific estimates, availability, and characteristics of the labor supply; and information concerning selected job characteristics and detailed tables that allow for comparisons among different labor markets.
27. With the inclusion of reservations in the data collection and analysis of the recently completed labor availability study, the Department estimates that $125,000 would be needed to complete the survey. Of that total, $17,500 would cover personal services and benefits for data analysis and report compilation, $100,000 to contract for completion of the survey, and $7,500 for overhead and operating expenditures.
28. No revenue is anticipated to be collected during FY2004, the program's first year of operation. By the end of FY 2005, 5% of the transfer payments, as provided for in Section 6, (6), retained by the Office of Economic Development is estimated to be $50,000 ($1,000,000 in repayments x 5% = $50,000).

FISCAL IMPACT:	FY 2004	FY 2005
Office of Economic Development	Difference	Difference
FTE	1.50	2.00
Expenditures:		
Personal Services	$70,675	$94,300
Operating Expenses	35,000	30,000
Grants	1,225,000	2,800,000
Debt Service	64,147	198,589
Transfers	122,238	525,709
TOTAL	$1,517,060	$3,648,709
Funding of Expenditures:		
General Fund (01)	$122,238	$525,709
State Special Revenue (02)	1,394,822	3,123,000
TOTAL		
Department of Labor and Industry		
FTE	.35	.35
Expenditures:		
Personal Services	$17,500	$17,500
Operating Expenses	107,500	107,500
TOTAL	$125,000	$125,000
Funding of Expenditures:		
State Special Revenue (02)	$125,000	$125,000
Revenues:		

General Fund (01)	$122,238	$525,709
State Special Revenue (02)	122,238	525,709
State Special Revenue (02) Loan Proceeds	1,300,000	2,600,000

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>

General Fund (01)	$0	$0
State Special Revenue (02)	($97,584)	($122,291)

<u>EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:</u>
No impact.

<u>LONG-RANGE IMPACTS:</u>
In the long run, the loans to provide training to new jobs will be repaid and the state general fund will benefit from the increased revenues from the new jobs created.

<u>TECHNICAL NOTES:</u>
Department of Labor and Industry
1. Section 6, (6). The 5% set aside of collections during the first two years would not be sufficient to allow the Department of Labor and Industry to collect and analyze the data for reporting available labor supply in Montana's rural, reservation and urban labor markets. The Department assumes that the labor availability studies will begin during the fiscal year in which sufficient funds are available from the 5% set aside of transfer payments in an amount that equals the projected survey cost of $125,000.